



\$1,000 Invested in Suncor Energy in January Is Worth This Much Today

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock was my top pick for January and September. If you invested \$1,000 in this stock both times, your \$2,000 is now worth \$2,964 today after excluding dividends. That's almost 50% growth. I can talk about what caused this rally and how to trade in cyclical stocks. But that won't answer your question of whether you should invest in Suncor at this juncture.

Trading on cyclical stocks

Last year, Warren Buffett increased his stake in Suncor stock even when the company cut dividends by 55%. Now, what was he thinking buying into an oil company that is making losses? He probably learned from his 2014 mistake that the oil industry is in a multi-year downtrend.

But oil is a commodity whose price is determined by the market forces of demand and supply. Whenever there is an imbalance in demand and supply, oil price wavers — and so does the stock price of oil companies. The key to playing with such [cyclical stocks](#) is to buy the downturn and sell the upturn.

Unless there is a viable alternative to oil, cyclicity will exist. Even if there are alternatives to oil, it will take a decade or two to make it economically feasible and widely acceptable. And as the move to clean energy progresses, the degree of volatility in oil price will slow. But again, that will take at least a decade.

Is Suncor stock a buy right now?

Now, based on the above logic, is Suncor a buy right now? Suncor is trading at its 52-week high, and oil price is at its seven-year high. The oil industry is at the peak of the cycle. This is a time to hold Suncor stock instead of buying it.

If you buy Suncor stock at its current level, your returns will take a hit. Let me explain how. Someone

who bought the stock in the February rally earned 30% returns compared to 54% returns for those who purchased the stock in January. A two-month delay costs 14% in lost returns.

At present, Suncor is at its pandemic high, and the stock is oversold. It is difficult to say when the rally will fade. **Bank of America** analysts are [expecting](#) oil prices to reach US\$120/barrel by June 2022. The last time oil price reached this high was in 2011. Even if I take the most optimistic outlook, Suncor could reach its pre-pandemic level of \$44, representing a 33% upside.

What to expect from Suncor?

Now, I'm not saying that Suncor doesn't have upside potential. But with every passing day, as the stock price rises, the risk of downside also rises. So if you already own Suncor, keep holding it as there is more upside.

But if you are planning to buy the stock now, the returns would be marginal and not as splendid (50%) as I said at the start of the article. But at the same time, I don't expect Suncor stock to dip before May 2022 *unless* there are exceptions like fresh lockdowns.

The stock market is all about timing. The time you take a position in the stock determines your returns. If not growth, you can look forward to the 25% average annual [dividend](#) growth Suncor's management plans to give by 2025.

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